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SUBJECT: KAZAKHSTAN: DOING BUSINESS IN ATYRAU

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On September 18-20, DCM and Energy Officer visited Atyrau, the oil capital of Kazakhstan on the northeastern Caspian coastline. Local government officials said that they welcome foreign investment and expressed interest in hosting an event with the American Chamber of Commerce. International oil companies working in Atyrau had no major complaints about the business climate, but cited difficulty obtaining work permits for foreign employees as a potential issue going forward. END SUMMARY.

ATYRAU OBLAST AUTHORITIES WELCOME AMCHAM PARTNERSHIP

13. (SBU) In a meeting with DCM and Energy Officer on September 18, Atyrau oblast Deputy Akim (Governor) Nurman Nurbekov called Atyrau the engine of growth for Kazakhstan's economy and said that the oblast welcomed foreign investment. He called U.S. companies "important players" and "good corporate citizens" active in the local economy and specifically singled out Chevron, which owns 50% of Tengizchevroil (TCO) and has allocated more than \$380 million from 1993 to 2007 to fund community development projects in health, education, and training. When asked if there are any serious disputes between the local government and U.S. companies, Nurbekov said, "No, we have good relations with American companies and no concerns, and we work things out with them at the local level." Nurbekov told us that the oblast is eager to attract additional foreign investment and would welcome the establishment of U.S. joint ventures with Kazakhstani companies, particularly in the areas of petrochemicals, food processing, and construction. When informed about the Public-Private Economic Partnership Initiative (PPEPI), Nurbekov said the akimat (oblast government) would be pleased to participate, for example, by hosting a roundtable together with the American Chamber of Commerce (AmCham), or by establishing a working group to discuss issues related to improving the business climate in Atyrau. "Whatever we can do at the local level," said Nurbekov, "we will do." When informed that some international oil companies have had difficulty obtaining work permits for their foreign employees, Nurbekov explained that the Government of Kazakhstan issues a certain number of work permits at the beginning of each year, based on a request from state oil and gas company KazMunaiGas. He conceded that the number of permits required might exceed the number

requested and said that he would have no objection to working with individual companies to request additional work permits.

#### DIFFICULTY OBTAINING WORK PERMITS

14. (SBU) DCM and Energy Officer discussed the business climate in Atyrau at a September 20 meeting with two representatives of oil service companies, Dwayne Leismer, Atyrau-based International Accounts Manager for Schlumberger, and Alastair Fleck, Almaty-based East Caspian District Manager for Baker Hughes. Neither one had major complaints or concerns about the local business climate, although both mentioned difficulties in obtaining work permits and the unpredictability of customs duties as constraints to doing business in Atyrau. According to Leismer, since June 1, the Government of Kazakhstan has employed a new system for evaluating work permit requests, assigning points to each applicant based on age, experience, education, vocational training, and other factors. Unlike in the past, the new system allows a foreign employee to work in more than one oblast, but according to Leismer and Fleck, evaluation standards are not uniform across oblasts, and the Government has not determined how to score an applicant's work permit request if the applicant plans to work in more than one oblast.

15. (SBU) Schlumberger's Leismer also said that work permit application procedures have become more onerous for foreign companies since the new regulation was adopted. For example, applicants must submit notarized, translated copies of all documentation, which creates delays and increases costs. As a result, companies are not able to fill approved positions because their preferred candidates cannot complete the procedures to obtain a work permit in a timely manner. "This is potentially a very big

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issue for us," said Leismer. Both Leismer and Fleck noted that despite substantial investments to enhance technical skills and capacity among Kazakhstani workers, the oil and gas industry faces a near-term shortage of skilled local labor, particularly petroleum engineers, pipe fitters, and welders. The shortage is only exacerbated, according to Leismer, by the fact that international oil companies operating supergiant fields at Tengiz, Kashagan, and Karachaganak are "poaching" the skilled staff of the oil service companies. (NOTE: ExxonMobil Business Service Manager Adam Walker independently confirmed that international oil companies are likewise facing significant difficulties and delays obtaining work permits in Atyrau oblast. END NOTE.) When asked about their interest in the PPEPI, Leismer and Fleck said they were not aware of the initiative but were favorably disposed and would like to learn more. They also said that both of their companies intended to become more active in the AmCham and suggested that on some issues, such as customs and work permits, a collective approach to dialogue with the government would be more productive than individual lobbying.

16. (SBU) Agip Kazakhstan North Caspian Operating Company (Agip KCO) Public Relations Manager Richard Fritz told DCM and Energy Officer on September 20 that Agip KCO has had "constant battles with the Atyrau akim" and called the Government of Kazakhstan's emissions policy "insane" because it requires companies to describe in detail all potential emissions before operations commence. Companies are not given the option of amending or modifying the list without penalty, according to Fritz, even if they make infrastructure investments that lower emissions. Fritz also complained that Atyrau oblast is "squeezing" Agip KCO for a collective bargaining agreement, even though, according to Fritz, their employees have no interest in joining a labor union or entering into a collective agreement. Fritz said that Atyrau oblast officials threatened to withhold Agip KCO work permits unless it agrees to a collective bargaining agreement. Fritz volunteered that the Mangistau oblast akim is "much easier to work with -- just night and day." (NOTE: Mangistau oblast is the second and much smaller partner for energy companies. END NOTE.)

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